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FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC 7291
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RUEHFK/AMCONSUL FUKUOKA 9895
RUEHNAG/AMCONSUL NAGOYA 8006
RUEHNH/AMCONSUL NAHA 2255
RUEHOK/AMCONSUL OSAKA KOBE 3636
RUEHKSO/AMCONSUL SAPPORO 0471
RUEHBY/AMEMBASSY CANBERRA 2772
RUEHLO/AMEMBASSY LONDON 2186
RUEHUL/AMEMBASSY SEOUL 1367
RUEHBS/USEU BRUSSELS
RUEHBJ/AMEMBASSY BEIJING 5368

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SENSITIVE
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TAGS: [ECON](#) [ASEAN](#) [EFIN](#) [ETRD](#) [EINV](#) [FRB](#) [JP](#)
SUBJECT: Japan's Response to Lehman and AIG Development

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11. (SBU) Tokyo markets fell sharply September 16 following news of Lehman Brothers bankruptcy, only to rebound September 17 upon news of the Federal Reserve Board's authorization of an \$85 billion loan to American International Group (AIG). After falling 5 percent September 16, the Nikkei Stock Average was up 2.1 percent and the broader Topix index was up 1.3 percent in September 17 trading. The Tokyo Stock Exchange suspended AIG share trading prior to the morning session, pending confirmation of reports that the Fed would step in to support AIG.

12. (SBU) Insurance stocks, which were among the worst performers Tuesday, were boosted by optimism over the AIG bailout. Among them, Tokio Marine Holdings rose nearly 5 percent, and Sampo Japan Insurance advanced 2.6 percent. The AIG bailout also encouraged investors to snap up financial issues including megabanks which fell sharply the previous day, brokers said. Mizuho Financial Group climbed over 1 percent and Mitsubishi UFJ Financial Group gained 1.5 percent.

13. (SBU) While Lehman Brother's September 15 bankruptcy court documents indicated that major Japanese creditors, including Aozora Bank, Mizuho, and Shinsei Bank, faced a total exposure of \$1.67 billion, press reports indicated that due to credit-default swaps the actual exposure was significantly more limited. Aozora Bank, which was the largest Japanese creditor on the list, shed over 2 percent. Shinsei Bank, which was also on the list, lost nearly 7 percent.

Following a 2.5 trillion yen (\$24 billion) injection of liquidity into money markets September 16, the Bank of Japan again provided 3.0 trillion yen (\$2.9 billion) through emergency market operations to ameliorate financial market turmoil; the benchmark unsecured overnight call money rate reached 0.57 percent, exceeding the central bank's policy target of 0.5 percent. Members of Prime Minister Fukuda's cabinet met September 15 to discuss the implications of Lehman Brothers' bankruptcy, and the following day State Minister for Economic and Fiscal Policy Yosano remarked "[T]his has been expected since last year. It is unlikely that the failure of Lehman Brothers will have an immediate impact."

Background on Lehman Brothers and AIG in Japan

14. (U) Lehman Brothers Japan: Lehman Brothers Japan started its

operations in 1986. Its Japan offices are one of its three global centers to conduct financial transactions in the Asia Pacific region. The Japanese unit has conducted the full range of financial advisory and fund raising services. In particular, it has been active in underwriting stocks and corporate bonds in Japan. Lehman Brothers Japan gained notoriety in Tokyo when it raised funds for Livedoor's attempt to acquire Nippon Broadcasting System in 2006. Also, it is the top non-Japanese underwriter of Japanese government bonds (JGBs). Lehman Brothers Japan reportedly manages ¥1.2 trillion (\$11.5 billion) in assets. The firm's clients are corporations and institutional investors, while it has not provided services for retail investors. It has about 1,300 employees in Japan.

15. (U) On September 16, Lehman Brothers Japan filed for bankruptcy protection with the Tokyo District Court. Its liabilities are estimated to total roughly ¥3.4 trillion (\$32.7 billion), the second largest bankruptcy in post-war Japan, according to the Teikoku Data Bank, a private credit information organization.

16. (U) American International Group (AIG): AIG started its operations in Japan in 1946. The insurer provides the full range of insurance and related services in Japan. At present, AIG has a total of seven life, non-life, and reinsurance companies in Japan - AIU Insurance, American Home Direct, JI Accident and Fire Insurance, Alico Japan, AIG Star Life Insurance, AIG Edison Life Insurance, Transatlantic Reinsurance Company. AIG also has three investment management companies and one securities house. It has 13 related companies, including consulting and worker dispatching firms. It has about 26,000 employees in Japan.

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SCHIEFFER